



Social Enterprise and Microenterprise: Understanding the Connection

Social enterprise has generated significant buzz over the last few years. And that buzz is likely to grow with the recent publication of Nobel Peace Prize winner Muhammed Yunus' latest book, *Creating a World Without Poverty: Social Business and the Future of Capitalism*, which extols the virtues of social businesses. The social enterprise field has grown enough to have a trade association, dedicated foundations, a Web site, publications, business plan competitions and venture financing to support it. Moreover, a body of experience has begun to clarify its potential and challenges.

But how does microenterprise connect with this emerging field? The two strategies have much in common: a respect for business discipline and principles – and their application to social problems, a commitment to developing sustainable services, and a drive to document and quantify the costs and benefits of program services. But the fields have more than principles in common. There are U.S. microenterprise programs that operate as social enterprises, and others that have created social enterprises as one component of their strategy. This guide discusses what these approaches look like, summarizes some lessons learned, and outlines what funders can do to support these strategies.

What is social enterprise?

Social enterprise essentially is a business model focused on a “double bottom line.” As with all businesses, social enterprises focus on generating a financial return. In addition, however, they focus on generating a social return either indirectly by applying their profits for social good, or directly through the products, services and functioning of the enterprises themselves. Social services like Goodwill Industries that run thrift shops, exemplify the first approach. The second approach, which also carries the label “social-purpose business,” is exemplified by businesses like Greyston Bakery in New York, which is designed to employ the hard to employ, giving them an income, transferable work skills and experience in the food industry. Other social-purpose businesses deliver similar income and skills benefits while demonstrating alternative, more worker-focused business models in such industries as home health care and child care, which traditionally have been low-wage, low-benefit and high turnover operations.

How does U.S. microenterprise development apply social enterprise strategies?

First and foremost, microfinance programs are, at their core, social enterprises. They offer financial products and services to aspiring entrepreneurs closed off from mainstream banking services using a revenue-generating business model that, at its best, pushes toward financial self-sufficiency. While no U.S.

Microenterprise-focused Social Enterprises

Mountain Made, a retail store in Asheville, N.C., created by Mountain BizWorks to sell crafts created by client artisans.

Coffee with a Conscience, a shop in Milwaukee, Wisc., created by Wisconsin Women's Business Initiative Corporation to sell Fair Trade coffee and offer foods developed by client businesses.

Print Shop Plus, a print shop in Detroit created by the Detroit Entrepreneurship Institute, Inc. (DEI), which offers digital and offset printing and is housed at DEI.

WrenOvation, a retail crafts store in Bethlehem, N.H., created by WREN (the Women's Rural Entrepreneurial Network) to help more than 150 entrepreneurs sell their products and gain important market knowledge.

Appalachian Baby Design, created by and spun off of nonprofit Appalachian by Design, it operates as a flexible manufacturing network, providing rural women in West Virginia with alternative job opportunities.

microfinance loan fund can yet claim to have achieved breakeven, the leaders are reporting cost recovery of 41 percent and higher. At the same time, they report substantial social benefit. ACCION Texas, for example, has documented the direct creation of nearly 1,000 jobs in the last 12 years. Economic researchers hired by ACCION also found that the economic activity generated by the client businesses led to payrolls of \$24.8 million, and state and local tax revenue of \$4.5 million through 2005. The best microfinance executives are, indeed, social entrepreneurs – always looking for ways to increase effectiveness and maximize return while fostering entrepreneurial talent that others have discounted and creating economic value in communities that others often have overlooked.

But microenterprise practitioners have embraced social enterprise in other ways, creating businesses to: support access to markets strategies for artists and artisans, train emerging entrepreneurs in retail and other business skills, and cement their reputation as small business experts. Practitioners have tried such strategies as: creating bricks and mortar stores and Web malls to sell arts and crafts; designing their own product lines and generating contracts using microentrepreneurs to fulfill orders to specification; establishing a coffee shop where specialty food producers could test products; and opening consignment stores and, in one case, a print shop to give entrepreneurs business management experience. Some of these initiatives have been more successful than others, and some have shut their doors. Those that have survived have done so because they have achieved breakeven or reduced the amount of external subsidy required to a reasonable level considering the benefits produced. All of these experiences offer lessons for funders and practitioners.

Lessons learned

Not all social enterprises may be fully self-sufficient. It makes no sense to run a museum shop that doesn't make a profit. But it can make sense to run a social-purpose business with some subsidy, if the social gains outweigh the costs. The model may produce benefits at a much lower cost than traditional services, allowing an organization to extend its impact. It is important to note that some social-purpose businesses carry extraordinary costs that traditional businesses do not – such as offering additional training and support services to disadvantaged clients or workers, or providing in-depth product development consultations – that may be a challenge to recuperate. FIELD's documentation of social-purpose businesses implemented by grantees of the Ms. Foundation's Collaborative Fund for Women's Economic Development, found that the eight businesses tracked reached at least 53 percent operating self-sufficiency, and four of the eight covered more than 80 percent of their business expenses with earned revenues. These businesses, which were designed to employ low-income women, and create jobs and/or ownership opportunities offering better benefits than traditional, low-wage employment, were diverse in size and age. Furthermore, several operated in highly competitive industries. While the data demonstrated that they produced a set of strong benefits for their participants, including solid wages and stable employment, they also demonstrated the challenges involved in seeking to deliver on both aspects of the double bottom line.¹ It also is important to note that these results represent the level of self-sufficiency achieved by each business, and not by the nonprofit that launched the business.

Businesses that can achieve breakeven may take longer to do so than initially anticipated. Mountain Made, an artisan store created by Mountain BizWorks in North Carolina, for example, achieved breakeven in its fifth year, although initial projections suggested it should do so three years after the hiring of the store manager and the planned launch of the enterprise. The longer timeframe was required due largely to external factors. And that required patience from the executive team and board, and a willingness to make additional investments along the way.

Social enterprises demand the right management talent and a considerable investment of time and attention. The research suggests that many practitioners underestimate the “profound organizational, personal and professional changes entailed in the practice of the new social entrepreneurship.”² They need to be structured well and have experienced leadership. Again, Mountain BizWorks demonstrated the right way to do this by hiring a store manager with strong experience in the arts and crafts industry, and by creating a separate board to provide the leadership and support the project needed.

¹ The Aspen Institute, *Enhancing Employment Opportunities for Women: 2003 findings from the third round of the Collaborative Fund for Women's Economic Development* (Washington, D.C.: The Aspen Institute/FIELD, 2004), 3, 5 and Jeremy Black, *Enhancing Employment for Low-Income Women: Lessons learned from the third round of the Collaborative Fund for Women's Economic Development* (Washington, D.C.: The Aspen Institute/FIELD, August 2004), 8-9.

² Jed Emerson and Fay Twersky, eds., *New Social Entrepreneurs: The Success, Challenges and Lessons of Non-Profit Enterprise Creation* (San Francisco: Roberts Foundation, September 1996), 14.

A social enterprise can produce an array of benefits for an organization. In addition to the social benefits for its clients, an enterprise can increase the visibility of the organization to the broader public. It can attract new clients and new financial supporters. It can increase the institution's own understanding of and capacities in business development, and enhance the credibility of its technical assistance and training offerings to clients.

Program expectations for a financial return from social-purpose businesses to cover other program costs should be very modest. A largely sustainable way of delivering valuable client services should be its own reward. A carefully structured financial plan, however, can yield some benefits to programs with the patience to wait. (See the Mountain BizWorks case in this guide for an illustration of just how this can be done.)

A set of factors should be considered when an organization is deciding to support a social enterprise. These include:

- Larger, older nonprofits with bigger staffs are more likely not only to be operating an enterprise, but also to be turning a profit.³ This is so because *size and age* are indicators of both internal organizational capacity and financial capacity to buy needed expertise.
- *Can the organization secure sufficient capital* and have access to that capital long enough to reach the point of sustainability or success? Having the complete financing in place at launch also has been identified as critical, along with supportive funders who understand that to grow, the likely trajectory will involve early losses and multiple years of funding.⁴
- *Ventures should be chosen based on staff knowledge and expertise.*⁵ In the case of microenterprise development programs, this has led many to focus on the arts and crafts and food sectors, in which many of their clients are engaged and whose businesses they have observed and supported with technical assistance. Nevertheless, successful enterprises also have found it necessary to bring in additional expertise that takes their capacities a step further in terms of store or business management, market knowledge, and other key aspects.
- Does the social entrepreneur, or organization launching the enterprise, have *significant, traditional business skills?*⁶

Some researchers also have suggested that the size of the venture itself is important. Jim Schorr, executive director of Juma Ventures and co-founder of Net Impact, states that a social-purpose business needs to generate \$1 million in revenue annually to both create a significant number of jobs and be sustainable.⁷ Yet there appear to be models in the microenterprise field operating at lower sales levels that still generate benefits.

What funders can do

Support learning on the part of microenterprise managers about the experiences of others in the social enterprise field and what the research has shown. It is important for managers to truly understand the challenges and limitations of this model, as well as the field's potential, before embarking on a new initiative.

Ensure that any proposed venture is based on the institution's core strengths and experience, and that other needed skills can be acquired. It is probably best to look at enterprises that are closely related to mission, and to view them more as a potentially sustainable approach to delivering a particular service than as a tool for generating profits to subsidize a microenterprise program's other services. So developing an access to markets strategy around the business lines of core customers makes sense. Microfinance programs run by organizations with strong financial skills also make sense. On the other hand, while most microenterprise program managers are entrepreneurial in many respects, they have not necessarily run for-profit businesses. That is why it is important to complement their experience with others who are strong in retail management, on-line businesses, marketing in specific industries, etc. FIELD's observation of a set of access to markets strategies found that having deep industry knowledge was a requisite for success, and few studied programs had this expertise on staff.

Invest in feasibility studies and planning. Microenterprise managers understand the absolute necessity of doing full feasibility studies and business plans. This is what they counsel their clients to do daily. They need the latitude to develop the same for their own envisioned enterprises, and this type of funding is often dear.

³ Cynthia W. Massarsky and Samantha L. Beinhacker, *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector* (Englewood Cliffs, NJ: Yale School of Management and The Goldman Sachs Foundation Partnership on Nonprofit Ventures, May 2002), 4.

⁴ Kristin Majeska, "Growing a Social Purpose Enterprise," in Jed Emerson, George R. Roberts and Melinda Tuan, *Social Purpose Enterprises and Venture Philanthropy in the New Millennium* (San Francisco: The Roberts Enterprise Development Fund, undated), 29; also Massarsky and Beinhacker, 8-9.

⁵ Maia Szalavitz, "In Your Face: The Social Enterprise that Beat City Hall," *Stanford Social Innovation Review* (Summer 2005): 47.

⁶ Emerson and Twersky, 11-12.

⁷ Jim Schorr, "Social Enterprise 2.0: Moving toward a sustainable model," *Stanford Social Innovation Review* (Summer 2006): 12-13.

Make sure that sufficient capital is there at the start. A frequently cited cause for failure has to do with the launch of enterprises with insufficient capital. Even in the best of circumstances, unforeseen events can require more cash than anticipated and for longer periods of time. And given the sheer management challenges that these enterprises represent, splitting leadership attention between management and fund-raising is not a formula for success. Funders also should consider creative approaches to helping organizations gain financial benefit from their enterprises where possible. In the case of Mountain Made, Mountain BizWork's funder allowed them to use their grant as an investment in the enterprise, thus creating the prospect of both developing a sustainable market opportunity for clients while returning a substantial sum of money to the parent institution when it achieved breakeven.

Finally, expect microenterprise programs to focus on the double bottom line for their microfinance and other social enterprise ventures and help them document results. Microenterprise managers are performance-driven and understand the importance of documenting social and financial benefits of their strategies. But sometimes funding constraints, and capacity constraints, lead them to place this on the back burner. Helping them to collect data and document outcomes with a cost-benefit lens will contribute to their own assessment of the effectiveness of this strategy, as well as help the field further sharpen the understanding of its place in microenterprise development.

For-profit Store Provides Client Benefits and Fiscal Return for Mountain BizWorks

In 1998 with support from a Charles Stewart Mott Foundation Access to Markets grant, Mountain BizWorks explored the feasibility of developing a social enterprise in Asheville, N.C. as a means to generate earned income and diversify funding. The idea emerged for a for-profit store that would produce financial benefits for clients, and once profitable, feed unrestricted funds back to BizWorks. Responsive funders such as the Janirve and Warner foundations, as well as Catholic Campaign for Human Development, allowed BizWorks to open a for-profit retail crafts store, Mountain Made, in 2002 as a wholly-owned subsidiary. They also allowed BizWorks to transform funding to BizWorks intended for the store into an investment in the form of debt and equity, that would be repaid from unrestricted funds once the store reached profitability.

The store was created with an independent structure, board and store manager. Both the board and the store manager were chosen for their retail and craft experience, and were empowered to oversee and operate the store. Although unexpected additional investments were needed, both the BizWorks and Mountain Made boards exhibited continued patience while Mountain Made brought costs in line and reached breakeven. BizWorks and Mountain Made staff and board capitalized on opportunities by authorizing a critical store expansion before the business model was deemed a success. In October of 2006, four years after the store opened, it reached breakeven and has remained in the black since. In the first quarter of 2008, the first principal pay-down will occur in the amount of \$10,000-\$15,000. During the slightly more than five years that the store has been open, it has paid 337 individual artists a total of almost \$500,000. Projections for 2008-2012 anticipate an additional \$750,000 being paid to artisans for inventory.

For more information

Tamra Thetford, *FIELD forum*, Issue 19: *Blazing a Trail to Sustainability through Social Enterprise: A Case Example*. Washington, D.C.: The Aspen Institute/FIELD, January 2008 (<http://fieldus.org/publications/fieldforum19.pdf>).

The **Social Enterprise Alliance** (www.se-alliance.org) is a membership organization for practitioners and funders engaged in the social enterprise movement that provides training and resources for nonprofits interested in pursuing earned-income businesses or strategies to generate revenue in support of their charitable mission.

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